

Testimony of

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President and CEO of the Council on Foundations

**United States House of Representatives
Committee on Ways and Means**

Hearing on

**The Benefits of Permanent Tax Policy
for America's Job Creators**

April 8, 2014

Mr. Chairman and Ranking Member Levin, thank you for the opportunity to present testimony on the “Benefits of Permanent Tax Policy for America’s Job Creators”. I am Vikki Spruill, the President and Chief Executive Officer of the Council of Foundations. With over 1,500 grantmaking foundations and corporations as members, the Council on Foundations (“Council”) serves the philanthropic field as its voice nationally by promoting policies that enable the philanthropic sector to work most effectively. Though our membership invests billions of dollars each year, its real value comes from its commitment and ability to advance the communities, causes, and programs that make our country thrive. As is the case for other job creators, philanthropy benefits from permanent and sound tax policy.

I commend the Committee for holding this hearing on the important topic of the “Benefits of Permanent Tax Policy for America’s Job Creators”. Foundations play a critical role in strengthening our country’s economy and in providing the context for continued growth. Foundations themselves employ many people. Importantly, they also provide resources and capital for innovations and services that communities need to thrive.

A 2012 Johns Hopkins University study determined that nonprofits account for 10.1% of private sector employment.¹ The contribution of foundations to that total is particularly significant. A 2012 study by the University of Idaho, “Economic Impacts of 2010 Foundation Grantmaking on the U.S. Economy” quantified that impact in detail:

We find the immediate short-term results of U.S. foundation grantmaking, including multiplier effects, to be 973,112 jobs and \$63.58 billion in GDP.

To get these figures, we start with U.S. foundations giving of approximately \$37.85 billion to U.S. domestic nonprofits in 2010. These grants directly created 491,551 jobs and contributed \$23.83 billion to the GDP. Factoring in the multiplier effects created from the backward linkages in the economy, the short-term impacts increase to a total of 973,112 jobs and \$63.58 billion in GDP....

¹ Lester M. Salamon, S. Wojciech Sokolowski, and Stephanie L. Geller, “Holding the Fort: Nonprofit Employment During a Decade of Turmoil”, *The Johns Hopkins Nonprofit Economic Data Project* (January 2012) at 2.

We found that in the long-term U.S. foundations create 8,888,624 jobs and contribute \$570.56 billion to the GDP. They also contribute \$117.96 billion in total federal, state, and local taxes.

In all, the total long-term economic impacts represent between 5.1 percent to 7.0 percent of U.S. employment (depending on the measure) and approximately 3.9 percent of GDP.²

As detailed below, since 2007, foundations have given over a quarter of a *trillion* dollars to support worthy philanthropic initiatives in every part of the U.S. Those funds have created countless jobs, both among the direct recipients of the support, and in every community in which those recipients—and their families, coworkers, friends, and neighbors—live and work. Moreover, the jobs the philanthropic sector has created jobs for those who have faced the greatest impediments to entering the workforce, either due to inadequate skills, severe disabilities, endemic poverty, family obligations, or the simple fact that they reside in areas where jobs are scarce. Strategic investments from philanthropy have provided a great many Americans with the tools and hope they need to achieve the American dream through employment, education, and opportunity.

We are proud of what our members and others in philanthropy have achieved in job creation, and we urge this Committee to be mindful of our role as job creators as you craft solutions to the economic challenges our nation faces.

On behalf of the Council, I affirm the continued commitment of the philanthropic community to help address the needs of some of our most vulnerable communities and neighbors. The Council and its members are committed to meet that challenge. In 2012, the last year for which complete data is available, foundations channeled \$45.74 billion to support critical initiatives in the communities they serve, and our members very much hope to increase that sum substantially over the coming years.

² Steven Peterson and Benjamin Fujii, “Economic Impacts of 2010 Foundation Grantmaking on the U.S. Economy” (November 2012) at 6.

Indeed, foundations have a proven record of increased giving—over the 20 years from 1992-2012, the amount invested in communities annually by foundations *more than quintupled*, despite a significant decline in individual donations between 2007 and 2012. Foundations in particular stepped up in recent years, a time of severe economic stress, to provide critical resources when other sources of funding became less available. In addition to providing essential funding, the philanthropic sector also has a proven record of applying resources in highly innovative ways to achieve solutions to intractable problems on a large scale.

From 2007 through 2012, the country's recession and subsequent period of high unemployment led to significant declines in individual charitable donations. Yet, over that same period, giving from foundations increased 14.4 percent. In fact, foundation giving during that period totaled \$253.82 *billion*, a commitment that made a positive difference in virtually every community in our nation. Because of the increased giving from foundations, total charitable giving over that period, which included a devastating recession, increased. If foundations had not increased giving substantially, total charitable giving would have declined at a time when those resources were most needed. I believe that the tremendous role played by foundations and individual donors over the last few years demonstrates the importance of maintaining our country's culture of giving.

The Council commends this Committee for its efforts to reform the tax code and for its interest in assessing how those reforms may affect the charitable sector. Towards that end, the Council encourages the Committee to consider changes to the tax code that would help, rather than hinder, the philanthropic sector's ability to fulfill its mission. In particular, I would like to highlight an area in which thoughtful Congressional action may significantly enhance the philanthropic sector's capacity to serve—permanent

extension and expansion of the IRA charitable rollover in Internal Revenue Code Section 408(d)(8). Representative Schock has been a key leader on the IRA charitable rollover issue, and I urge the Committee to make permanent the rollover.

Until its expiration at the end of last year, Internal Revenue Code Section 408(d)(8) provided donors the opportunity to make tax-free distributions from their IRAs for charitable purposes. Prior to 2006, taxpayers wishing to transfer IRA assets to charity first had to recognize the amount as income, make a transfer, and then claim a charitable contribution deduction for the amount gifted. This often resulted in tax liability, even though the donor ultimately transferred the entire IRA distribution to charity. The Pension Protection Act of 2006 partially solved this problem by allowing individuals to transfer amounts from their IRA accounts directly to charity without first having to recognize the distribution as income.

This stability is particularly helpful for donors in the middle income levels, who have disproportionately used the IRA charitable rollover. The Council also supports making the IRA charitable rollover more effective by eliminating the current \$100,000 cap, allowing donors to make rollovers beginning at age 59 ½, and permitting rollovers to supporting organizations, private foundations, and donor-advised funds. These changes would help cultivate new sources of support for philanthropy and enhance the sector's ability to serve the country.

Since its initial enactment, the IRA charitable rollover has expired several times, only to be temporarily extended in each instance on a retroactive basis. Most recently, Section 408(d)(8) expired at the end of 2013, and Congress is again considering a further extension. On April 3rd, the Senate Finance

Committee approved the “Expiring Provisions Improvement Reform and Efficiency (EXPIRE) Act”, which would extend the IRA charitable rollover for two years, effective retroactively to the beginning of 2014. The Council strongly supports that provision of the EXPIRE Act and a two-year extension of this important provision.

However, as the title of this hearing acknowledges, a temporary extension is less effective than a permanent provision, and would not address needed reforms. For the IRA charitable rollover to achieve the strongest effect, it should be enacted on a permanent basis to permit job creators—including, in the philanthropic context, donors, public charities, private foundations, donor-advised funds, supporting organizations, and the recipients of support from our sector—to engage in the long term planning required to design effective programs and allocate resources efficiently.

Without a permanent extension, neither donors nor philanthropies nor those who receive support from the philanthropic sector can plan for the long term. In the business sector, the inability to plan for the long term is a huge impediment to effective management and imperils an organization’s ability to achieve critical goals. That is also true in the philanthropic sector—arguably, even more so. The problems we take on—poverty, joblessness, education reform, disease eradication, and countless others—require long-term commitments if they are to be addressed effectively. In turn, sound long term planning requires informed projections for the amounts and sources of funding, and it demands a clear understanding of the legal framework for charitable giving. Repeated temporary extensions of the IRA charitable rollover impede prudent planning. As the title of this hearing acknowledges, permanent tax policy benefits job creators, and the philanthropic sector is among the largest and most consistent American job creators, particularly in recent years.

Thank you again for this opportunity to present testimony. Also, thank you for your leadership in reforming our broken tax code, and for your insistence that sound tax policy is possible only if it is permanent tax policy. The Council on Foundations stands ready to work with you on the crucial task of fixing our tax code.

Supplemental Sheet

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